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Delivered via email: regcomments@ncua.gov

January 21, 2010

Mary F. Rupp, Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428

Re: First Entertainment Credit Union Comments on Part 704 Corporate Credit Unions

Dear Ms. Rupp:

This comment letter to the NCUA Board represents the official position of First Entertainment Credit Union on the proposed corporate credit union regulations. First Entertainment is an $800 million asset, 57,000 member California-chartered federally insured financial institution located in Hollywood, California. First Entertainment believes that the comment process serves a valuable public purpose and in this instance will attract many conflicting points of view. Our credit union's officials appreciate the opportunity to present our comments and observations about Western Corporate Federal Credit Union (WesCorp) specifically and about the corporate credit union network as a whole.

In addressing the corporate credit union regulations and their impact on the credit union industry, First Entertainment specifically chooses to comment on three general areas of interest based on potential contingencies. Regardless of which approach the NCUA Board ultimately follows, it is our desire to go on record about these specific concepts embodied within the proposed regulations and their operational impact.

- First Entertainment must be able to choose not to use WesCorp or any corporate credit union and must have a firewall between it and the corporate credit unions' systemic risk – in other words, an unrestricted ability to opt out.

- First Entertainment supports the changes to the proposed regulations that are being championed by other WesCorp members in order for that corporate credit union to have an improved chance for a viable business plan under the proposed regulations.

- First Entertainment also advocates a specific vision for the corporate credit unions going forward that involves significant consolidation, retention of member ownership when possible, corporate credit union-specific deposit insurance, and the establishment of a Federal Reserve-like role – minus the monetary policy.

P.O. Box 100 Hollywood, CA 90078
p: 888.800.3328 e: mail@firstent.org

# Opt In or Opt Out & Firewalled

**Corporate Credit Union Opt In or Opt Out Decided by Each Retail Credit Union**
First Entertainment Credit Union would not oppose the continuation of WesCorp as a non-NCUA conserved member-owned and member-recapitalized limited risk-taking corporate credit union as long as certain important conditions were met:

1.) First Entertainment has the unrestricted ability to opt out of the corporate credit union network system, or

2.) Legislation is enacted to fully insure all balances in corporate credit unions. Effectively this would make the temporary corporate credit union stabilization guarantees and insurance program permanent. The guarantee charges and insurance premiums would be paid for by the corporate credit unions.

First Entertainment supports the right of other independent retail credit unions to make their own choices about opting in or opting out of WesCorp or any other corporate credit union.

Unless First Entertainment can be protected against future corporate losses as outlined above, the credit union will not be recapitalizing WesCorp and will not be utilizing the corporate credit union network for ongoing liquidity or payment system services if those services are restricted only to member owners. WesCorp's payment systems and other services are professionally delivered and supported by a competent staff engaged in a longstanding good relationship. First Entertainment would prefer to do business with WesCorp, but would not recapitalize the corporate in order to have access to these services.

Under any statutory and regulatory structure designed to reform and replace the existing unsustainable corporate credit union business model, First Entertainment must have an ironclad risk firewall between it and corporate credit union risk taking – despite the fact that some other retail credit unions might be willing to accept the inherent risks. Without such a firewall for First Entertainment and similar retail credit unions that want to avoid future corporate credit union risks, the corporate credit union network should instead be:

1. responsibly dismantled, or
2. replaced by a credit union service organization (CUSO), or
3. eliminated in favor of alternative vendors that do not impose untenable systemic risk on the credit union industry, or
4. consolidated and transformed into the Federal Reserve-like alternative described later in this letter.

**Installing an Ironclad Firewall Between Corporates and Retail CUs**
First Entertainment believes that an ironclad firewall should be established that protects retail credit unions from the risks associated with corporate credit unions and that absolutely cannot be breached by the NCUA during a crisis. There are several methods that can be used to establish such a firewall. First Entertainment dismisses those who say that such a firewall cannot be constructed due to the interconnectedness of the cooperative credit union system as lacking the required political will to do what is necessary. With the proper statutes and regulations, anything that can be conceived and that makes business sense can be achieved.

The only absolutely certain way to shield a retail credit union from the risks inherent in the corporate credit union network is to totally dismantle the network and permanently retire the corporate credit union charter. Alternative vendors, including uninsured credit union service organizations (CUSOs), could serve as payment system and/or investment substitutes.

As an alternative, retail credit unions could firewall the corporate credit union risks by establishing separate deposit insurance fund risk pools. The NCUSIF could be retained as the deposit insurance pool for retail credit unions. The TCCUSF is already serving as the *de facto* deposit insurance fund for corporate credit unions and could be transformed into a separate segregated deposit insurance pool funded by the corporate credit unions. Under this scenario, only those credit unions that chose to use a corporate credit union would be underwriting the related risks. Credit unions choosing not to use a corporate credit union would be insolated from having their NCUSIF contributions confiscated to pay for corporate credit union losses.

An additional way to mitigate risks to retail credit unions that choose not to use a corporate credit union would be to substantially alter the existing system where the NCUSIF covers both corporate credit unions and retail credit unions. When originally established, corporate credit unions were not insured – largely based upon the business premise that the low dollar levels of consumer deposit insurance were meaningless to retail credit unions, some of which were investing millions of dollars with their corporate. If all corporate deposits were uninsured, then all investing credit unions would clearly understand in advance that their funds were at risk. Should a worst-case scenario occur, only those credit unions that voluntarily chose to take the risk would suffer the losses – even if the losses led to insolvency and dissolution.

If corporate credit unions remain insured by the NCUSIF, the statutes and regulations should be revised to ensure that the NCUA is mandated to conserve any insolvent corporate and wind down its affairs rather than to declare it too big to fail – and the 100% guarantees (i.e. NCUSIF exposures) associated with that policy. Deposit insurance coverage should be restricted to the same $250,000 that applies to retail credit unions. The NCUA's corporate credit union problem resolution procedures should also prohibit too big to fail and provide clarity to retail credit unions, creditors, and investors about how they would be treated in resolutions. These procedures should also be implemented with full transparency and disclosure of all costs.

## WesCorp Recommended Changes

**WesCorp Members' Recommended Changes to the Proposed Regulations**
First Entertainment joins with other WesCorp members in advocating a number of revisions to the proposed regulations that are designed to better enable WesCorp to craft a viable business plan going forward under the new regulations. These recommended changes have been well explained in other comment letters about these proposed regulations and will not be explained in detail here. In short, the recommended changes include:

- Remove penalty for early withdrawals on corporate certificates [704.8(c)]
- Revise Net Economic Value (NEV) sensitivity analyses to allow WesCorp to make sufficient income and retained earnings [704.8(d), (e) & (f)]
- Extend weighted average asset life expectations to accommodate both short and long term needs [704.8(h)]
- Adjust concentration limits sufficient to allow WesCorp to invest short term liquidity at reasonable rates [704.6(c) & (d)]
- Require only truly senior executives and directors to disclose compensation [704.19]
- Expand overall limits on business generated from individual credit unions to allow WesCorp to provide reasonably priced short-term liquidity [704.8(k)]
- Ensure that WesCorp can find qualified CUSO partners without having the regulations impede that objective [704.11]

## Specific Corporate CU Vision

**Future Corporate Credit Union Vision**
First Entertainment advocates a specific vision for the corporate credit unions going forward that involves significant consolidation, retention of member ownership when possible, corporate credit union-specific deposit insurance, and the establishment of a Federal Reserve-like role – minus

the monetary policy. First Entertainment would like to see retail credit unions retain ownership of their corporate credit union, although that is unlikely to be possible for the conserved WesCorp and U.S. Central. NCUA owns both of these large corporate credit unions and at the earliest opportunity should merge them together into one entity operated temporarily by NCUA until decisions can be made about the legacy assets and negative retained earnings at these two institutions.

Ideally there would eventually be only one corporate credit union serving retail credit unions that minimizes overhead costs, removes the historically-proven counterproductive corporate-to-corporate competition that encouraged risk-taking, and simplifies regulatory oversight. This consolidation could be accomplished via voluntarily mergers, through regulatory mandates, or as a result of NCUA conservatorship of the remaining corporate credit unions.

This single corporate credit union should have its own deposit insurance structure and/or guarantee program. The cost of the program would be relative to the risks taken by the corporate credit union and the cost would be folded into the corporate credit union's pricing structure for services. That way only those retail credit unions that use the corporate credit union's services would pay for the deposit insurance guarantees – providing an ironclad opt out for the others.

Should circumstances evolve that impede the ability to establish the one corporate credit union as a credit union owned entity, the alternative of a quasi-governmental structure akin to that of the NCUA-managed Central Liquidity Facility should be explored. Modifying the existing CLF statutes and structure to transform it into the credit union industry's Federal Reserve-like liquidity and payment systems access to the larger financial systems merits consideration. This might prove to be a particularly useful alternative in the event that the legacy asset burden precludes the recapitalization of the remaining corporate credit union as a user-owned entity independent from NCUA's direct control and daily management.

## Concluding Remarks

**First Entertainment's Contributed CCU Capital Lost and Ongoing Exposures**
As a member of WesCorp, First Entertainment experienced significant losses on its contributed capital and continues to be exposed to more unrealized and realized losses from the corporate credit unions' underwater mortgage-backed securities and similar legacy assets via the National Credit Union Share Insurance Fund (NCUSIF) and the Temporary Corporate Credit Union Stabilization Fund (TCCUSF). Certain industry analysts estimate the total loss exposure could equate to 500 basis points of deposit insurance premiums for each credit union.

Any future business model for WesCorp (or any corporate credit union) that puts First Entertainment's capital at risk should be scrupulously avoided. First Entertainment's higher obligation is to preserve its members' capital to be used primarily for the members' best interests – including safety and soundness, products and services expansion, and competitive rates. First Entertainment believes that the various contingent approaches outlined in this comment letter have the best chances of preserving this credit union's members' capital.

It is First Entertainment's hope that the NCUA Board will give serious consideration to the comments presented in this letter. The adoption of the NCUA Board's proposed corporate credit union regulations looks to be an important first step in the process of managing the current challenges. However, First Entertainment has serious doubts that any corporate credit union will be able to measure up to the operational expectations inherent in the proposed regulations as they are currently written. The NCUA should probably also have contingency plans for the orderly wind down of the corporate credit union network and the ultimate elimination of the charter.

Thank you for the opportunity to present these comments on behalf of our credit union.  I would welcome any questions.

Charles Bruen
President/CEO
First Entertainment Credit Union